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1. Introduction

The banking system in the world consists of different types of banks, such as the Central Banks, conventional banks, Islamic banks, specialized banks, etc. These banks are essential in achieving the economic stability in the countries; as they are collecting the savings and reinvest in exchange for a return, also they provide funds to finance the commercial projects of different sectors through reducing the time and effort for those who need the funds. Those fund's demanders consider as strategic factors in the existence of banks through meeting their needs and achieving financial gains and ensuring continuity and survival of the bank, so as a result of these processes the demand for production and investment increases, which lead to the rise in the country's Gross National Product (GNP). Therefore, The Central Banks (the regulatory authority of banks) seeks to the development of regulatory instructions and financial guidelines and obliging banks to follow, to create financial stability.

In the constant of changes in the economic environment, Banks expose to several types of risks, such as credit risk, liquidity risk, capital risk, interest rate risk, inflation risk, market risk, etc., that affect their different lending and investment activities, and thus on the assets of the Banks and the safety of depositors' funds **(Al-Meleiji, 2012).** During the last decade, the banking industry has witnessed several developments resulting from technological advances, financial innovations, and the liberalization of financial markets, which led to increased competition between banks and increased the risks that threaten their continuation and survival. Thus, Banks Management, in general, should direct another department to highlight the general framework of risk management in the development of new ways and mechanisms to address those risks. In the Banks, risk management is to maintain a sound capital base to meet the credit, market, and operational risks in the short term and ensuring the soundness and maximizing stakeholder value in a long time. Risk management is to prepare an initial plan to face risks that expected to expose in the future and to determine the steps to handle all the levels of risk through a clear strategy. Thus, Banks have to set new rules to handle risks that help in reducing the effect of exposure, because risks correlated to each other and associated with the activities of the Banks. Risk management take the following process:

Figure 1.1 Risk Management Process

Source: Developed by the Researcher.

A risk is an uncertain event inevitable in our lives and a companion in the presence of an Organization. Risk is the future event that might happen or not, and this event will have a link with either a positive effect (create an opportunity) or a negative impact (face a problem). Risk consists of different types, and the credit risk considered as the most significant risk faced banks and financial intermediaries **(Gray et al., 1997)**. Taking into account that the Banking system is a credit system in the first place and that lending is the primary function of the Bank, which is the most profitable. At the same time, Banks faces many risks that hinder the credit process and expose Banks to higher credit risk as a result of the possibility of losses, that occur due to the decrease in the credit quality of the borrower or the counterparties. The losses occur from counterparty default due to inability to meet their obligations, and may stem from the reduction in the portfolio value arising from actual deterioration in credit quality **(Goyal, 2010)**. Thus, credit risk management has to lead to raise a Bank's performance by maintaining a reasonable limit credit risk exposure to provide a framework of the understanding of Credit risk management and its impact on banks' profitability **(Kodithuwakku, 2015)**. Credit risk management in Banks becomes more critical day by day, and not only due to the financial crisis that affects the Banking industry, but because credit risk management determines Banks' survival, growth, and profitability **(Olausi & Abiola, 2014)**. Credit risk considered as a type of financial risk, which is the most critical risk in the finance, as well as the most significant kind of risk, that face the Banks, which is generally represented by three concepts:

- Default risk
- Loss risk
- Exposure risk

In this regard, the risks management in general and credit risk management, in particular, are among the most critical topics of interest for Bankers globally, especially since the last few years. In the aftermath of the previous century, there have been financial and global crises that have significantly affected the financial system. Which was represented by the failure of Herstat Bank in Germany in 1974 and the credit crunch in the U.S. During the years 1993-1994, Venezuela faced a severe Banking Crisis, that ended up with a intervened of the Government in a total of 18 Conventional banks **(Trigo & Costanzo, 2000)**. Also, Regarding the extension of the Banking operations, the degree of the risk increased by the inability of the Banks to meet their obligations, so this matter led some of the Banks to stop their operations, for example, bankruptcy of Albatra and the liquidation of Alatmad and Conventional Banks, due to the usability of the Banks to meet their obligations **(Abdullah, 1992)**. In Zimbabwe too, many Banks forced to close down during 2003 and 2004 in what was termed the Zimbabwean Banking Crisis and the leading cause being the reduced credit risk management. In Zimbabwe, the number of financial institutions declined from forty in 2003 to twenty-nine in 2004, and some financial institutions forced to close down, also the others placed under curatorship, because of lack of the effective credit risk management that on maintain the Bank survival **(Njanike, 2009)**.

The major reasons of the several Banking problems are directly related to the poor portfolio risk management, lack of credit standards of borrowers and counterparties, or lack of attention to changes in economic or other circumstances that can lead to a deterioration in the credit standing of the counterparties **(Gil, 1994)**. An example, inadequate credit risk management in Nigerian deposit money banks in the past. In 2009, the Central Bank of Nigeria (CBN) revoked the Banking licenses of 10 out of 24 Banks in Nigeria, where the Central Bank of Nigeria accuse their executive management teams of a high show of poor credit risk management in the Banks and less on the sense of judgment as well as inexperience **(Adesugba & Bambale, 2016)**. Consequently, these successive crises aroused the interest of international economic and financial institutions (the International Monetary Fund, the World Bank and the Bank for International Settlements), because of the increasing Banking risks faced by banks on the one hand and the weak internal and external

control (national regulatory authorities) on the other.

Given the importance of Banking risk management and its role in minimizing the risks faced by the Banking system, the Basel Committee on Banking Supervision issued several documents and agreements governing the work of Banks. In 1988, the Basel Committee issued several guidelines related to the management of Banking risks and the way to manage them properly. These guidelines focused on the credit risk, which is the most significant and most important risks to the Banks, that must monitor and measure the potential risks in any transaction and deliberate success in minimizing the risks associated with the credit portfolio. Also, in 2004, the Basel Committee developed the second agreement, which focused on the three main pillars as international standards for minimum capital, regulatory review, capital adequacy, and market regulation. However, with the 2008 subprime mortgage crisis, the shortcomings of this agreement were made clear, leading members of the Basel Committee to issue Basel III.

In Yemen, the Central Bank of Yemen has issued the Yemeni Bank's Law to facilitate its activities in (1), as well as monitoring and to follow up the laws and to impose penalties in the event of a breach. The Central Bank of Yemen has also issued several guidelines and instructions that help to implement the standards of Basel. But, on the other hand, the Banking industry in Yemen is considered as the weakest industry in the Middle East and North Africa region (MENA), associated with the several successive crises affected the country and Banking industry. The Yemeni Banking sector consists of few banks and dominated by the public sector Banks; consequently, the competition is generally weak. Despite the progress made thus far, the Yemeni Banking sector still faced systematic inefficiencies and ineffective functioning. Furthermore, the weak coordination among Banks and the subjective assessments of credit creation is not consistent among Banks and lead to an increase in the volume of non-performing loans and liquidity problem. The Yemeni Banking sector significantly affected by the uncertainties of the range successive crises leading to a decrease in the Banking balance sheet due to the massive withdraw of the customers and companies' deposits either local or foreign currencies **(Almekhlafi et al., 2015)**.

1. Background of the Yemeni Banking System

The Banking system is one of the leading sectors in modern economies, one of the most important economic sectors, as it is the most critical contact with the outside world. The banking system has an essential role in mobilizing domestic and foreign savings and financing investment, which is the core of economic activity. Even its development considered as judging the safety of the national economy or its ability to attract domestic and foreign capital. Banks are one of the most important financial institutions in the money markets of any national economy. They play a leading and strategic role in the implementation of the objectives and components of the monetary policy of the state. Thus, they contribute significantly to the escalation of the pillars of economic and social development as the only commercial intermediary that collects financial resources. By saving for reorientation in the financing process of economic institutions within the framework of so-called Bank loans granted to them by Banks, Therefore, Bank loans are a useful Banking tool to achieve sustainable national development, especially concerning those funded by foreign trade **(Yemeni national Information Center,2018).**

Yemen's financial system is small for the size of the economy. Yemeni Banking sector consists of the Central Bank of Yemen, nine Conventional banks, three specialized Banks, four Islamic banks, three Pension Funds, and Yemen Investment and Finance Company. Financial institutions in Yemen is very poorly developed and conservative; thus it is estimated that 65% of the country's liquidity held in cash outside the banking system and Banking law in Yemen is not clearly defined. Earlier the financial system was dominated by one large institution, the Yemeni Bank for Reconstruction and Development, which is almost exclusive to 80 percent of the Banking sector **(Eveleth & Shoraka, 2005).**

2.1 Central Bank of Yemen

Before 1970, there was no central bank in Yemen, but the Yemeni Monetary Committee established as a prelude to the establishment of the Central Bank of Yemen. The essential functions of the Central Bank in the exercise of the powers of Central Banks are to determine of Banking transactions and the need to control the body of credit carried out by various Banks within the

country. Taking into consideration that the Central Bank is subject to the general policy of the country and the Central Bank's objective is not profitability as it is for other Banks.
The Central Bank is the main axis of the Banking sector and its role in the management of monetary and banking policy, maintaining financial stability, and laying the foundations for sustainable economic growth. While Conventional and Islamic banks' lending individual's deposits to investors at a fixed interest rate, and Conventional banks do this by generating money (by creating credit) **(Yemeni national Information Center,2018)**.

The Central Bank has some functions as below **(Qaraseh & Ramadan,1984):**

1. Issuing and regulating the currency: The reason to entrust the process of issuing money to Central Banks instead of the Government is the country's fear of excessive currency to serve the purposes of the budget without economic activity, which lead to the deterioration of the value of the currency and lack of public confidence.
2. The performance of Banking services as a Government Bank: Some believe there is need for independence of The Central Bank from the Government and not subject to supervision, because the Government can influence the activity of the Bank to serve their purposes, but from another view, some believe that the Government's control of the Central Bank is inevitable, because there is no difference between the Government and The Central Bank in their keenness on the public interest.
3. Credit control: The function of credit control is to control the Central Bank in the size of the amount of Bank money that Conventional Banks can create. The Central Bank's methods of controlling the volume of credit are:
    A. To change the discount rate; If The Central Bank wants to expand the size of credit, it reduces the discount rate, and if it wants to shrink the size of credit, it raises the discount rate for Commercial paper.
    B. To open market operations: If The Central Bank intends to expand the volume of credit, would enters the stock market as a buyer, and if The Central Bank wants a contraction in the size of credit, would come the stock market as seller.
    C. To change in the percentage of the cash reserve: Conventional and Islamic banks committed to reserving a particular portion of money with The

Central Bank, therefore, if The Central Bank's policy is to expand the volume of credit, would reduce the cash reserve percentage, and if The Central Bank wants a contraction in the size of the credit, would raise the cash reserve percentage.

D. The literary influence or temptation: since the Conventional and Islamic Banks have reserves, they may ask the Conventional banks to follow a policy consistent with the general interest of the state.

4. Managing the country's foreign and monetary reserves as well arrange the exchange between Banks and each other, through settle the differences between these banks by the use of credit balances of these Banks.

2.2 Banks Working in Yemen

The first form of Banking was the acceptance of deposits that did not initially give owners any right to interest, and even sometimes had to pay part of it to those who deposited this property for guard and preserve them. These depository institutions have thus undertaken lending operations for interest and guarantees that vary depending on the nature of the activities and the lending materials, and these lending operations carried out from the lender's property. Subsequently, with the development of Banking and the accumulation of deposits with the institutions that carry out banking activities, these institutions noted that some depositors left their deposits for a long time without using them. They considered using part of these deposits and lending them to the needy for interest. After paying the deposit commission on their deposits, and after these transactions increased, the Bankers noted that they could grant loans without actual deposits corresponding to their own. Thus, from the task of accepting deposits at the beginning, the Banking business moved to the practice of lending and credit, becoming the cornerstone of the modern Banking business is the acceptance of deposits and savings on the one hand and the provision of credit facilities and Banking services on the other side.

The total number of Yemeni banks form the population of the study. There are 18 banks currently working in Yemen and consisting of 11 (eleven) conventional banks and 4 (four) Islamic Banks. In terms of ownership status, The Conventional Banks include 4 (four) state-controlled Banks, 2 (two) domestic private Banks, and 5 (five) foreign-owned Banks, while Islamic Banks include one state-controlled Bank and three privately-owned Banks. It is mention below:

Table 1.1 Banks working in Yemen

Name of the Bank	Number of branches	Ownership	Incorporation date	Head office
Conventional Banks				
1- The Yemen Bank for Reconstruction and Development	43	Government & Private	1962	Sana'a
2- National Bank of Yemen	27	Government	1969	Aden
3- Arab Bank Limited	9	International	1972	Sana'a
4 - United Bank Limited	3	International	1972	Sana'a
5- Yemen Kuwait Bank for Trade and Investment	11	Private	1979	Sana'a
6- Cooperative and Agricultural Credit Bank	51	Government & Private	1982	Sana'a
7- Al-Rafidan Bank	1	International	1982	Sana'a
8- Commercial Bank of Yemen	14	Government & Private	1993	Sana'a
9- International Bank of Yemen	21	Private & International	1997	Sana'a
10- Yemen Gulf Bank	2	Private & International	2001	Sana'a
11- Qatar National Bank	1	International	2007	Sana'a
Islamic Banks				

1- Islamic Bank of Yemen for Finance and Investment	5	General, Private & International	1995	Sana'a
2-Tadhamon International Islamic Bank	21	Private & International	1996	Sana'a
3- Saba Islamic Bank	15	Private &International	1997	Sana'a
4- Shamil Bank of Yemen and Bahrain	8	Private & International	2002	Sana'a
Specialized Banks				
1- Hosing Credit Bank	1	Private & International	1977	Sana'a
Microfinance Banks				
1- Kurimi Bank for Microfinance	20	Private	2010	Sana'a
2- Al-Amal Bank for Microfinance	17	Government, Private &International	2008	Sana'a

Source: Yemeni Banks Association (YBA), 2017, https://www.yemen-yba.com/en/?page_id=2011.

2. Review of literature

3.1 Credit Policy

The subject of credit policies or lending in the Banks is a significant subject of the economic and social level, especially along with difficult circumstances. However, local studies have crystallized on Credit Risk Management and the performance of the Banks, unlike the International studies that focus on the subject of credit policies and the effect of non-performing loans on the banks in those countries. Thus, **Akani & Uzobor (2009)** investigated the lending policies of the Commercial Banks in Nigeria and the study found that the Commercial Banks strictly adhered to

the lending policies of The Central Bank of Nigeria. Subsequent, **Rasedia & Srinivanson (2014)** showed the role of credit facilities in increasing the market share of investment Banks in Canada and conclude that credit facilities have a useful role in increasing the activities of banks and increasing their market share.

Furthermore, **Tomak (2015)** studied the factors affecting the Bank lending behavior of Turkish commercial banks. The study found that Bank lending influenced by the size of the Bank, the volume of liabilities, the ratio of non-performing loans to total loans, and the inflation rate. Also, the study indicated that bank lending in private Banks was better than Government Banks. Nevertheless, **Al-Qaisi (2017)** examined the impact of key variables on the size of bank lending and The results showed that the liquidity ratio and the size of the Bank had a negative impact on the credit facilities granted by the Commercial Banks, in addition to the interest rate on lending and deposits positively affecting the credit facilities granted by Commercial Banks in Jordan

Nyaboga (2016) studied the credit policies in Commercial Banks and its effect on profitability and found that the Bank widely used credit policies to manage loan portfolios in the bank, relationship on Banks credit policies, and organizational performance. Also, volatile interest rates, inadequate assessment on loan appraisals, poor lending practices, poor portfolio risk management, and changes in economic circumstances are among the other factors that consider as reasons that cause loan defaults. Later, **Azad et al., (2019)** investigated on Lending and fee as determines of profitability of the Islamic Banks across 20 countries (where Islamic Banks operate), and concludes that non-lending (fee-based income) has a significantly positive effect on the profitability of an Islamic Bank, while the impact is insignificant for the Conventional Banks.

3.2 Credit Risk Management

Risk management is critical in the Banking industry in order to ensure the reliability of the operations and procedures followed within the Banks, and credit risk management is no less significant than risk management cause to the complexity that involves dealing with the most crucial activity for the Bank (lending) in terms of profitability and risks that face the Banks. Therefore, many studies have conducted and indicated to credit risk management in the previous and recent centuries, which means that credit risk management was and still is a significant field in research and studies.

Some of these studies undertook about Yemen enlighten the importance of risk management in general and credit risk management, particularly. Thus, **Aezzki (2012)** discussed the impact of the Banking risk on the profitability of the Yemeni commercial Banks during 1990 to 2008, with the primary aim to determine the effect of the Banking risks, represented by (capital risks, interest rate risk, liquidity risk, and credit risks) on the profitability of the Yemeni commercial Banks. The results show an effect of banking risks on the profitability of the Yemeni commercial Banks either in the level of each Bank or at the level of the Banks collectively, with different ratios. Also, **Abdul Rashid (2015)** researched analyzed and evaluated the credit performance of the Yemeni commercial Banks, with the primary objective to evaluate the credit performance of the commercial Banks in Yemen and to expand the understanding of the Bank's credit in general. The study concluded that the performance of the Bank credit in Yemeni commercial Banks was unsatisfactory from both sides-quantitative and qualitative terms.

Furthermore, **Almekhlafi et al., (2016)** indicated to the credit risk and Commercial Banks' performance in Yemen during the period between 1998 and 2013, intending to investigate the determinants of credit risk and its implication on the performance of the Commercial Banks operating in Yemen. The result of the study shows that non-performing loans negatively affect profitability, and credit risk management similarly affects the performance of all Commercial Banks in Yemen. However, **Aljabri (2017)** investigated the Credit Risk Management in Commercial banks in Yemen, with the main objective to examine the criteria of credit risk management in Yemeni Commercial Banks, by survey the availability of appropriate environment for managing credit risk, pursed the proper procedures of credit risk management, and monitoring of risk management. Sample of the Bank managers of finance and investment departments of all Yemeni Commercial Banks surveyed and the study concludes that there is an appropriate environment for credit risk management and monitoring for risk management. Also, the results reveal that there are no proper procedures for credit risk management, and there are no standers for the for-credit limits.

Credit risk is the risk that borrowers will fail to meet their obligations under the terms agreed upon by the Bank, either before or after the maturity of these obligations, i.e., this risk is related to the counterparty in the contract in terms of its ability to pay its obligations on time as agreed upon. Consequently, several studies around the world have studied credit risk management in recent

years. Most of these highlighted the credit risk management practices and the issues related. To start, **Goyal & Agrawal (2010)** discussed the significance of the Risk Management Process in the light of the challenges and opportunities in the implementation of Basel-II in the Banking Industry in India. The study emphasized that, although Indian banks continue to integrate Basel II into their operations continuously and in the right direction through the adoption of many processes and technologies available, it still requires Indian Banks to cover some distance to be among the best banks in the world. Furthermore, **Singh (2013)** highlighted the credit risk management of commercial Banks in India. The result shown that the Credit Risk Management policy framed the credit risk strategy, and these policies determined the target markets, risk acceptance/avoidance levels, risk tolerance limits, preferred levels of diversification, credit risk measurement, and monitoring and controlling mechanisms. While **Khalil & Ali (2015)** conducted a study on Risk Management Practices of Peshawar Conventional Banks, intending to identify the risk management process pursued by Conventional Banks. The results of the survey show that risk analysis, risk assessment significantly affects risk management practice, while risk identification and risk monitoring insignificant effect on risk management practice.

Credit risk management studies linked to several dimensions that most important of these were the effectiveness of the credit risk management process in the banks and its importance in avoid credit risk. **Abdelrahim (2013)** studied the effectiveness of credit risk management of Banks in Saudi Arabia in the view of the global financial crisis, with the main objective to examine determinants, challenges, characteristics, and development methods of credit risk management in Saudi Arabia Banks. Result of the study shows that liquidity has a significant strong positive impact, while the Bank size has a significantly strong negative impact on the effectiveness of Credit Risk Management, studies also found that the weak corporate governance, little credit diversification, low quality of assets and corruption of credit officer are challenges facing effectiveness Credit Risk Management. Moreover, **Karugu & Ntoiti (2015)** undertook a study on the effect of Credit Risk Management practices on the profitability of the Commercial Banks in Nairobi, with main objectives to examine the relationship between Credit Risk Management practices and profitability of Commercial Banks. The study found that there is a significant and positive relationship between credit risk management practices on profitability; therefore, the credit assessment, debt collection, and credit risk management significantly and positively impact profitability.

In the light of the importance of the credit risk management, **Prakash (2016)** discussed the significance of risk management in the Banking sector, with the main objective to highlight the importance of risk management in the Banks. The study concludes that the success of the organization will depend upon how efficiently the enterprise takes care of the entire risk management system. Subsequent, **Sahiti et al., (2018)** conducted a study on the importance of credit risk management of the Banking activities in Kosovo, and the study tried to highlight the importance of credit risk management through analysis of the financial system and Banking activities of Kosovoian Banks. The study concludes that according to the role of credit risk and market risk, the department of credit risk management should be able to identify, assess, monitor and manage these risks in a sound and developed manner to the Bank's success.

3.3 Credit Risk Management of Islamic and Conventional Banks

Although the Islamic and Conventional Banks offer similar services and products such as deposit accounts and their various types of financing, credit cards, and mortgages, they differ in the general framework and also that the products of Islamic Banks rely on the concept of profit and loss sharing. Therefore, many researchers believe that Islamic Financial Institutions may be at higher risk than Conventional Financial Institutions due to several reasons, including the nature of the risks and the unspecified financing methods to finance projects, whether in the sharing of profit or loss.

According to the above, the Conventional and Islamic Banks are exposed to credit risk based on the nature of their business and, therefore require the Conventional and Islamic Banks to implement a strategic credit policy to handle risks and to ensure the integrity of the process of providing and granting credit by setting an explicit criterion for granting credit, in addition to maintaining Appropriate credit management. Thus, **Abdou et al., (2014)** explored the risk management practices of Yemeni Islamic Banks, intending to examine the extent that Yemeni Banks applying the risk management practices and compare the practices used in Islamic, National, and Foreign banks. The study found that the Islamic and National banks have shown significant differences in understanding of risk and risk management, risk identification and analysis, while Islamic and Foreign Banks have shown significant differences in understanding the risk, the risk management, and risk identification and analysis. However, the result found that no significant

differences in Risk Management and Risk Management Practices either between Islamic and Foreign Banks or Islamic and National Banks.

While there are many studies highlight the difference in Credit Risk Management in the Islamic and Conventional Banks, such as **Masood et al., (2012)** surveyed the differences in Credit Risk Management between the Islamic and the non-Islamic Banks in UAE. The result of the study shows that the Islamic Banks have shown developing and practicing the newer and robust techniques for Credit Risk Management compared to the non-Islamic Banks. Also, **Hussain & Al-Ajmi (2012)** surveyed the effect of understanding risk, risk management, risk assessment analysis, risk monitoring, and credit risk analysis on risk management practices of Islamic and Conventional Banks operating in Bahrain. The results of the study reveal that credit is the most significant risk facing both Conventional and Islamic Banks, and Banks in Bahrain have appropriate risk management practices.

Subsequent, **Mokni et al., (2015)** surveyed the current existence of risk management practice in the Islamic and the Conventional Banks and concludes that Conventional Banks possess a formal risk management system better than Islamic Banks. Also, **Mongi (2018)** examined whether credit risk in Islamic banks is higher than Conventional Banks, and the result of the study reveals that Islamic Banks are more liable to credit and insolvency risk compared to Conventional Banks. Furthermore, **Noman (2017)** compared the credit risk management process of Islamic and Conventional Banks working in Bangladesh and conclude that there is no significant difference in credit risk management practices between Islamic and Conventional Banks. Further, **Njoroge & Ngahu (2017)** surveyed on the Impact of Risk Management Practices on Credit Performance in Islamic Banking in Kenya and found that that risk identification significantly interacts with the credit performance, as well, **Akram & Rahman (2018)** analyzed credit risk management performance of the Islamic Banks and Conventional Banks and the result shows a negative impact on Credit Risk Management in the case of Islamic Banks but a significant positive impact on Credit Risk Management in the case of the Conventional Banks.

Latest, **Al-Rahahleh et al., (2019)** discussed the Islamic Banking and Finance Literature which concern on recent developments of risk management. The study concludes that there is weak support for Shariah-based product development due to the lack of risk mitigation expertise in the

Islamic Banks while comprising with the Conventional Banks. Islamic banks have shown more risk-sensitive due to the nature of their products, contract structure, legal costing, governance practices, and liquidity infrastructure.

An analysis of the review of the literature reveals that several studies have been conducted on lending and Credit Risk Management in the Banking Industry for the Islamic and the Conventional Banks. The above literature of all the past studies figured out the credit risk management practices adopted by financial institutions from all over the world in different types of Banks. Some of this studies revels that the lending and credit default differ among banks, while some other studies reveal that it is similar. Furthermore, literature concludes that the Islamic Banks are more stable on credit risk management than the Conventional Banks, while others find no evidence of differences in credit risk management across Banks. There is always some variation in findings resulting from the sample of Banks in different countries and over time.

3.4 Research Gap

The analysis of the literature review clearly shows that there is a research gap in this area. Hence this study will attempt to fill this gap by taking up research on the credit risk management of the Islamic and the Conventional Banks in The Republic of Yemen. As Credit risk management plays a vital role in protecting the interests of stakeholders in the Banking sector, this study will become an important tool in the area of credit risk management, especially in the country like Yemen. The policymakers in the Banking Industry in Yemen can also use the results of the study. However, the advantage of this study focused on the most critical part of the Islamic and the Conventional Bank's function, also being the first study that looked at the credit risk management practices of the Islamic and the Conventional Banks in Yemen.

The main difference between this study and previous studies is:

1- **In terms of the study population:** The study community is the Islamic and the Conventional Banks in Yemen, where most of the previous studies centered on either the Conventional Banks or Islamic Banks and there are no studies that take both types of the Banks in specific study.

2- **In terms of the content of the study:** The most crucial characteristic of this study from the previous studies is its comprehensiveness, as not only its scope in credit risk management practices but also exceeded it in talking about credit policies.
3- **In terms of methods of study:** This study has partnered with some of the previous studies to rely on the descriptive-analytical method of analysis of the data reached.
4- **From the theoretical side:** Various documents such as books, newspapers, magazines, and other materials have been referred to, for the analysis to reach the research objectives.
5- **From the practical side of the research:** The research is familiar with some studies by relying on the questionnaire as a tool for collecting the primary data to analyze Credit Risk Management practices of the Islamic and the Conventional Banks in Yemen and secondary data to support the result of the primary data.

3. Research Design

4.1 Statement of the Research Problem and Research Questions

In the light of the tremendous development in globalization and financial liberalization, the opportunities increased and the business interactions between different sectors, whether at the level of the country or at the global level among countries, which contributed to the development of different activities that work to supplement the economic development process in the countries, creating the need for the necessary financing for expansion and investment. As a result, companies and individuals rely on credit provided by the banks to manage their investment, expansion or consumption operations. Given that the Banks are the primary source of credit grants that represent the most significant primary function of Bank's profits, but at the same time the Banks may be exposed to many risks due to their dealings with companies and individuals- where credit risk contributes to more than 50% of the total Banking risks- which if it occurs, would overtake the Bank and the Banking system of the country and affect the world financial system in general. According to the previous, Banks should focus on their credit operations and prepare important criteria for dealing with credit risk - which is the most critical component of Banking risk as a whole - through credit risk management that seeks to limit the occurrence of risks and hedge them in order to maintain the continuity and worth of Banks as well as achieve maximum security for depositors and shareholders.

On the other hand, Islamic and Conventional Banks are major financial institutions that grant credit to companies and individuals. Despite the widespread prevalence of Conventional Banks, Islamic Banks have grown at a high rate in the past decades in terms of their number, size and services that they provide throughout the world and have become one of the pillars the basic of the Banking system. Islamic Banks differ from Conventional Banks in the nature of their credit products that they offer, also in many matters related to the terms of the contract and exposure to risks due to the nature of the various Islamic Banks and the diversity in their business, which operates according to the principles of Islamic Sharia and sharing of loss.

Besides, Yemen is the weakest industry in the Middle East and North Africa. Despite significant progress, the Yemeni Banking system remains weak and faces many issues and problems, such as low rates of loan collection and the provision of doubtful loans, as well as a lack of public confidence as a whole in the ineffectiveness of the Banking system to manage crises. Studies have shown that the performance of the Yemeni Banking sector has been unstable since the 1990s until the year 2000, in addition to the failure of the National Commercial and Investment Bank in 2005; when The Central Bank failed to impose its supervision and legal authority to save the rights of depositors, as depositors have not received their money so far after liquidation procedures. Also, the successive crises in 2011 and 2014, led to declining of the Banking industry and abandonment of investments, thus reduction of the credit and accompanying events during 2016 and 2017 such as the transfer of The Central Bank from Sana'a to Aden and other political crises.

Hence, in the light of developments on the international scene in general and Yemen in particular, the research problem designed according to the high need for credit and the accompanying rise in the volume of risks that accompanies the banks operations, therefore there is need for rationalize the credit decision and increase the efficiency of credit risk management practices of the banks. Although many types of research investigate credit risk management in Yemen such as (**Aljabri 2017; Abdul Rashid, 2015; Almekhlafi et al., 2015**; **Abdou et al., 2014**; **Zaid Aezzki, 2012**; **Mokni et al., 2015**), they have arrived at different results. Therefore, the credit risk is presently a crucial part for the Banks, and the Banks have to pay more attention to managing it. With this background, the study placed to study the Credit Risk Management in the Yemeni Banking industry and to highlight how the Banks can be extremely cautious and vigilant in lending and overall management of credit risk by answering the following questions:

1) What is the profile of the banking industry in general in Yemen?

2) Are there differences in the credit policy between the Islamic and conventional banks in Yemen?

3) What is the pattern of the loan and advances given by the banks in Yemen?

4) Do loans and advances differ according to the economic sectors between Islamic and conventional banks?

5) Do the Islamic and conventional banks have similar practices in credit risk management?

5a- Are there differences between the Islamic and conventional banks with respect to awareness and risk identification?

5b - Are there differences between the Islamic and conventional banks with respect to understanding and implementation banking regulation?

5c- Are there differences between the Islamic and conventional banks with respect to understanding and implementation Basel guidelines?

5d- Are there differences between the Islamic and conventional banks with respect to assessing and analyzing risk?

5e- Are there differences between the Islamic and conventional banks with respect to minimizing credit risk?

4.2 Objectives of the Study

The main aim of the study is to give a general overview on credit risk management in the Islamic and Conventional Yemeni Banks by undertaking the following objectives:

1. **To study the profile of the banking industry in Yemen in general**

The present study aims to present an overview of the banking industry in Yemen and its operation in general by describing the history of the Yemeni banking industry; classification and structure

of Yemeni banks with highlights about the changes that happened in the last decade; clarify about the differences between the Islamic and conventional banks, give a profile of the banks working in Yemen, along with the background and the performance of the Banks. The study also aims to give some recommendations for improving the efficiency of the financial system in mobilizing savings and channeling them to the productive sector of the economy.

2. **To study the credit policy of the Islamic and conventional banks in Yemen**

The study will state the credit policy of the Islamic and conventional banks by understanding the policies and steps followed by banks during the process of the lending. The study will highlight the various causes of credit default of the Islamic and conventional Yemeni banks, and suggest some solutions for credit default.

3. **To understand the pattern of loans and advances given by the banks in Yemen**

The study aims to highlight the meaning of credit and its significance to banks, economy, and developing countries. To identify the characteristic for grant credit, and mainly to understand the different types of loans and advances offered by banks to customers and companies as banks accept deposits and grants credits through the lending of funds to traders, businesses, and industrial enterprises. The study will try to understand the difference between loans and advances.

4. **To compare the credit risk management practices between The Islamic and The conventional banks in Yemen**

The study aims to present the different practices and processes of credit risk management in the Republic of Yemen by awareness and risks identifications in banks, understanding and following banking regulations and Basel Committee, and analysis and measurement of the credit risk in the banks. The study seeks to examine the extent to which Yemeni banks apply credit risk management practices, and to compare the differences between the credit risk management practices of the Islamic and conventional banks in Yemen.

5. **To suggest suitable measures for the credit risk management system in the banking sector in Yemen based on the findings of the study**

Based on the findings, the study will aim to suggest measures to improve the credit risk management system in the banking sector of Yemen.

4.3 Hypotheses of the Study

H1- There is a significant difference in the credit policy between the Islamic and conventional banks in Yemen.

H2- There is a significant difference between the Islamic and conventional banks concerning the pattern of loans and advances according to the sectors.

H2a- There is a significant difference between the Islamic and conventional banks concerning the pattern of loans and advances according to the commercial and industrial sectors.

H2b- There is a significant difference between the Islamic and conventional banks concerning the pattern of loans and advances according to the individual's sector.

H2c- There is a significant difference between the Islamic and conventional banks concerning the pattern of loans and advances according to the other sectors.

H3- There is a significant difference in credit risk management practices between the Islamic and conventional banks in Yemen.

H3a- There is a significant difference between the Islamic and conventional banks concerning awareness and risk identification.

H3b- There is a significant difference between the Islamic and conventional banks concerning the understanding and implementation of banking regulation.

H3c- There is a significant difference between the Islamic and conventional banks concerning the understanding and implementation of Basel guidelines.

H3d- There is a significant difference between the Islamic and conventional banks concerning assessing and analyzing risk.

H3e- There is a significant difference between the Islamic and conventional banks concerning minimizing credit risk.

4.4 Methodology

The study uses the descriptive analytical approach to answer the research questions and illustrate the pattern present in the study of credit risk management in the banking industry, also to analysis of the Yemeni banks, relating to the Islamic and conventional banks in the Republic of Yemen. The unit of analysis is represented by 14 banks *(Yemeni Bank for Reconstruction and Development, Yemen Commercial Bank, Islamic Bank for Finance & Investment , National Bank of Yemen, CAC Bank, Al- Thadaman Islamic Bank, Bank of Yemen and Bahrain Shamil, Saba Islamic Bank, International Bank of Yemen, Arab Bank, Bank of Yemen and Kuwait, Bank of Yemen and Gulf, Qatar International Bank, and Al-Rafidain Bank)* of which (10) are conventional banks and (4) Islamic. The secondary data was collected form the banks reports from 2011 to 2017, while primary data was collected through a questionnaire designed on the basis of the problems of the study, which identified the variables related to the subject of the study, so that embodied its clauses, dimensions, and parts of the field study data.

The banking industry in Yemen has been considered as the field of study, whereby the current study community is represented by 14 Yemeni banks [(4) Islamic and (10) conventional banks] in the capital, Sana'a because it represents all the main branches of the banks, and have departments specializing in risk management and monitor the implementation of the risk and credit policy. The Islamic and conventional banks operating in the Republic of Yemen were selected because they represent the most significant part of the Yemeni banking sector.

In the present research, risk managers and credit risk managers were selected on the assumption that they have a clear understanding of credit risk management in addition to their experience in designing and implementing credit risk management policies. A questionnaire was sent by post to each Islamic and conventional banks separately located in the capital, Sanaa to contribute to achieving the goals of the study, as this study focused on credit risk management and its practices in Islamic and conventional banks operating in the Republic of Yemen, where these practices are considered one for each bank and apply to all branches of the bank in general, so that the questionnaire was distributed to the credit risk managers in the banks by (15) questionnaires in which one questionnaire was specified for each bank and among of the 15 questionnaires, only 14 were collected. After data collected, it has coded in numbers in Statistical Package for Social Sciences (SPSS-21). The coding process represents the formative data for the two-part questionnaire: general data related to the personality of the study sample individuals, and data

related to study variables. Finally, a statistical tools used to carry out the necessary analyzes and statistics for the questionnaire data, such as:

1- The Alpha Cronbach factor,
2- One-Sample Test,
3- T test,
4- Mann-Whitney Test,
5- Arithmetic mean and standard deviation.

4.5 Scope of the Study

This study is descriptive-analytical research and seeks to investigate the credit risk management of the banks in Yemen. Yemen is an Asian Arab region located in the Middle East, with a population of 29,825,964 spread over a geographical area of 527,970 square kilometres. The study covers the banking system in Yemen. Primary data was collected via questionnaire and analyzed with the appropriate statistical tools, and secondary data was collected from banks reports books, magazine, journals, and websites.

Figure 1.2 Study Country- Yemen

Sourse:yemen map, https://media4.picsearch.com/is?mA7zmZ0ImAq1ru1y7vTbCr6Yt0H2Ec-rGciujY3pUMI&height=268

4.6 Significance of the Study

The present research will shed light on credit risk management, which is considered as an essential area in the banking industry, especially in the era of globalization. Researchers stress the importance of managing reasonable credit risk in order to avoid the bank's failure. Many studies have focused on the model of credit risk management, competition and other topics associated with the study of credit risk, which explain the difference between Islamic and conventional banks through efficiency, profitability, credit policies, and others. Credit risk management is so crucial in limiting and hedging against losses in the presence of credit risks, which contribute to more than 50% of the total risks facing banks.

The significance of the present research lies in the critical role of banking risk management, especially with the development of the banking industry, and multi-risk and diversity. Furthermore, the importance of the present research is evidenced by the recent practical and scientific focus on the credit risk management practices and methods in Islamic banks and conventional banks, and the development of the most critical ways to managing credit risk to avoid financial crises. Therefore, the study becomes significant as it throws light on how the banks can be very cautious and vigilant in lending, and the overall management of credit risk in Islamic banks and conventional banks.

4.7 Limitation of the Study

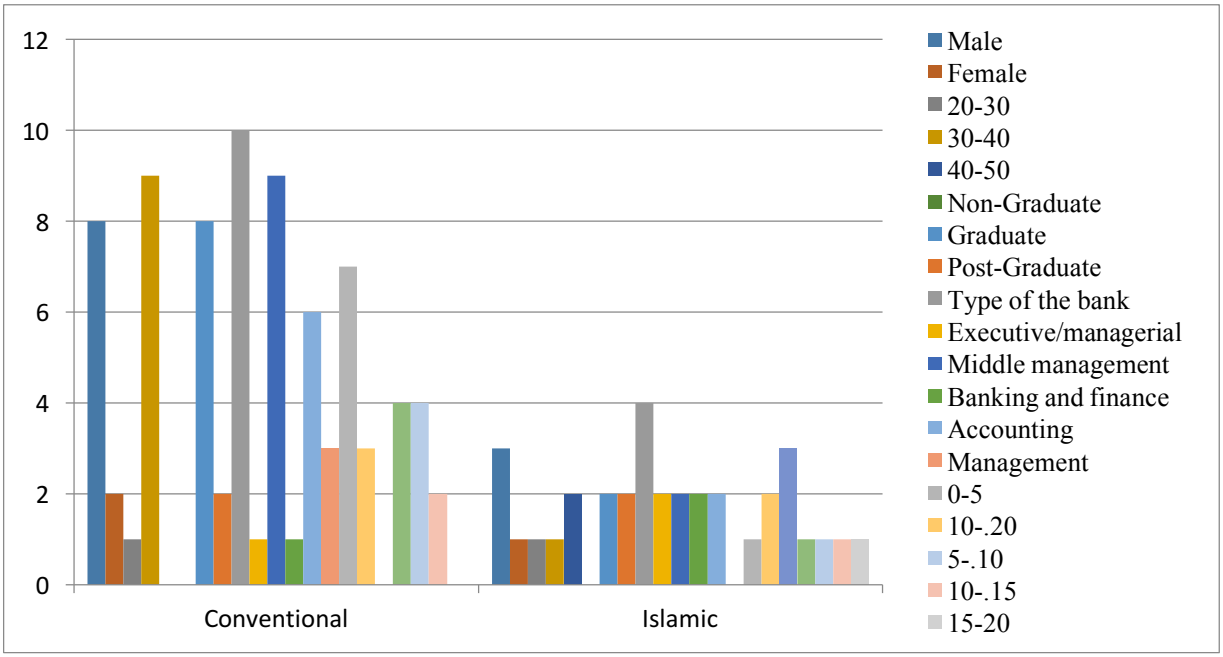
The study has the following limitations:

1. Lack in discloses the banks data.
2. Absence of stock market.
3. Worsening and volatile of political and economic situation in Yemen.
4. Study limited to only Islamic and conventional banks.

5. Data Analysis and Interpretation

5.1 Descriptive Analysis of the Demographic Variables

Figure 1.3 Descriptive Analysis of the Demographic Variables



The figure 1.3 indicates the distribution of the characteristics of the study sample of Islamic and Conventional Banks according to the demographic variables, where the majority of risk managers from the Conventional Banks at a rate of (85.7%) of the total sample and the rest of the risk managers (14.3%) are working in Islamic Banks, which refer that the number of Conventional Banks working in Yemen is more spread than Islamic Banks. Further, the majority of risk managers in Yemeni Banks were male with a rate of (78.6%) and the females represent (21.4%) only, which attributes that most workers are males due to the nature of business in the Banks and the country. While the data of age variables indicate that the majority of risk managers of the Islamic Banks aged more than 40 years old, likewise, Conventional Bank's risk managers ranged between (30-40) years, which indicate that Banking jobs require such kinds of age.

According to the level of education variables, the majority of the risk managers of Islamic banks holding post-graduate and bachelor degree, while most of the risk managers of conventional bank holding a bachelor's degree, and its attribute that most of the society do not tend to study higher studies and banks tend to employ those who qualify. Furthermore, Islamic Banks tend to employ

those whose background related to accounting and Banking sciences, while in Conventional Banks, most of the risk manager's background specialization in accounting and business administration.

Furthermore, the data indicate that most of the risk managers of the Islamic banks have experienced managers' more than conventional banks, and this shows that Islamic bank managers have more service in the bank than traditional bank managers. However, Islamic banks tend to have sufficient experience in the field of credit than Conventional Banks.

5.2 Descriptive Analysis of the Dimensions variables

1. Descriptive Analysis of credit policy Domains

Banks believe that loans contribute more to corporate loans (industrial advances, infrastructure, commercial real estate, etc.) and to Small and Medium Enterprises (SME) , and the percentage of credit limit allocated to various industries is 15-20% . However, the rate of return on lending in the Bank is more than 20%, while the bad debt out of total loans is 5-10%.

In respect of monitoring the loan and borrower, it is clear that there is no much difference between Islamic and Conventional Banks regarding examine of borrowers' performance, which indicates that both Banks are following the same steps and ideas on the examine of borrowers' performance. Although, Both Conventional and Islamic Banks widely agreed that the personal experience of the credit officers play an essential part in making lending decisions and they used to concentrate on the data that are reliable and helpful on making the credit decisions, but banks used to review credit risk assessment every three months, while Conventional Banks believe that most of the Banks reviewed Credit Risk Assessment Monthly.

For the importance of the 5 Characteristics scale (5CS), the financial flow came first in terms of importance, guarantees came second, capital ranked third, and properties ranked fourth, and finally, the conditions came in the last rank. Therefore, Conventional Banks believed that the clients have defaulted when the customers 3 months late for his obligations, while the Islamic banks determines that the clients have defaulted on the loan/credit when the customer is late in paying one month.

2. Descriptive Analysis of the Awareness and Risk Identification Domains

Conventional banks indicate that the most common reason for increasing risks are poor credit appraisal and dishonest borrower, while in Islamic banks indicates that and other reasons such as non-compliance with terms of sanction, political interference, and corruption along with the above reasons are common causes for Increasing the risk. Therefore, according to the result of the data, it is shown that both Islamic and conventional banks often similarly in determining the risk through comparison with the standard provided by Central Bank of Yemen and followed by using banks own method, techniques or calculation of risk, which consider as a unique or computational technique for identifying these risks, finally the help of an outside agency to identify the risks.

According to the function of risk management , the result has shown that conventional banks believed that the confirmation of pre-sanction and post-sanction conditions is the primary function of risk management in approving proposals, while Islamic banks believed that accepting proposals based in Independently confirming information and facts of the proposal, evaluate the proposal with industry parameters & banks old experience, suggest risk-based pricing, security & mitigation measures, and confirm pre-sanction and post-sanction conditions complied are the main functions of risk management. Finally, the result shown that risk management is essential for the performance and success of the bank and most of them have an effective risk management strategy.

3. Descriptive Analysis of Understanding and Following Banking Regulations and Basel II Guidelines Domains

In respect of **banking regulations**, the result shown that Banks formalizing its practices according to the guidelines of the Central Bank of Yemen, which is including Basel requirements, thus clarifies that Conventional and Islamic Yemeni Banks following the instructions of the Central Bank of Yemen in formalizing the practices.

Also the result revels that banks have a formally approved credit risk management policy – that is applicable to all types of credit- and it is formulated according to the guidelines and provisions given by the CBY, however, this Bank's Credit policy more stringent and less lenient than CBY guidelines which is a part of the company wide capital management strategy. It turned out that there is a high consensus in Conventional Banks and Islamic Banks regarding who is responsible

for formulating Credit Risk Management Practice is the Board of Directors. However, both Banks either Islamic Banks or Conventional Banks agreed that the Board of Directors is the entity who approves the general policy of credit management and this explains that the Yemeni Banks are following the same steps, whether Conventional or Islamic in setting the general policies for credit management.

In respect of **Basel- II requirements**, the majority Yemeni banks almost similar in implementation and following the Basel guidelines. Conventional and Islamic Banks already implemented Basel-II in all parts either in the credit risk management or in capital adequacy requirements through an action plan and appointed staff to achieve the implementation of Basel II requirements. Furthermore, conventional and Islamic banks know about the credit risk management approaches that appointed by Basel-II for a sound credit risk management, and the approaches followed by the bank meets the bank needs which is the approach based on the Advanced and Foundation internal evaluation. Also, Banks indicate that there is a positive impact of Basel-II on the credit risk management practices of the bank.

Yemeni banks believe that the higher capital requirement and Data gathering are the most problems for the implementation of Basel requirements besides other problems, while there are many advantages banks will archive when they implement Basel requirements such as improving the accurate understanding of all the bank's functions and enabling performance control according to risks and flexibility and determining the rate of performance.

4. Descriptive Analysis of Assessing and Analyzing Risk Domains

The result of the study shown that the risk management is monitoring the implementation of policy and making necessary adjustments through the regularly review the performance of the bank in managing their business risks. Also there are an audit committee whose purpose is to assess the risk measurement system and its adequacy of regulatory laws and policies.

The banks have in place a financial analysis system which assesses the probability of credit risk through use of an internal risk rating system to assess the creditworthiness of the borrower and counterparties and follow-up , examines the consistency and accuracy of risk rating periodically, independent analysis and review in case of syndicate loan, evaluates the credit risk associated with off-balance sheet transaction, gathers information on borrowers credibility from other sources,

checks the credibility of financial statement of borrowers, and conducts financial analysis for each settlement period and monitors changes in the client's financial condition.

5. Descriptive Analysis of Credit Risk Minimizing Domains

Yemeni Banks believe that the most critical risks facing Banks are credit risk, followed by market risks, and the majority of Yemeni Banks believe that credit risk management is vital for the strategy of the Bank. Therefore, Conventional banks and Islamic Banks consider credit risk management in the Bank's current business strategy, and they consider credit risk management very important for the Bank's current business strategy.

There is a separate credit risk management department to ensure compliance with risk management and there is credit risk management committee to oversee the credit risk management function. Also, credit risk strategy in the banks and credit policy commensurate with the overall risk management strategy and policy, also the board of directors (BOD) approve the credit risk strategy and periodically review the credit risk strategy and credit policy.

Banks agreed that computerization has helped in better credit risk monitoring and they use model/software for measuring credit risk, also Banks uses the quantitative and qualitative analysis methods in credit risk assessment. Even Banks use as the first model is (Altman) for measuring risk management, followed by credit metrics, credit risk+, Mc Kinsey's credit portfolio view, and Software developed by the Bank also used by banks.

Most of the Banks choose qualified personnel in credit management, while credit risk department provide the guide on risk management to the workers and send them for refresher training on credit risk management. Also Yemeni Banks prefer all types of training such as training in procedures, legal issues, and financial evaluation to deal with risk management in Banks because training helps to make better credit analysis.

5.3 Hypothesis testing

5.3.1 One Sample Statistics

Table 1.2: Result of One Sample Statistics

Domains	N	Real mean	Expected mean	Std. Deviation	Df	T	Sig	Level
Credit Policy	14	27.48	7.5	11.01	13	9.423	.000	Reasonable Degree
Awareness and Risk Identification	14	44.18	33	9.55	13	6.082	.000	Reasonable Degree
Banking Regulation	14	9.81	6	2.52	13	7.84	.000	Reasonable Degree
Basel II Guidelines	14	2.03	2	1.60	13	.120	.000	Reasonable Degree
Assessing and Analyzing Risk	14	3.25	6	1.163	13	-146.24	.000	Reasonable Degree
Credit Risk Minimizing	14	7.48	4	2.35	13	7.667	.000	Reasonable Degree

One Sample Statistics used to know the availability of Credit Policy, Awareness and Risk Identification Level, Regulation (Banking Regulation and Basel II Guidelines) Assessing and Analyzing Risk, Credit Risk Minimizing in the Yemeni banks. Table 1.2 shows that:

- The value of T-test for the domain of Credit Policy reached 9.423 at the level of significance (.000), which is less than 0.05, means that it is statistically significant in favor of the realistic mean of 27.48. Thus, it can be said that the field of the Credit Policy was available in Yemeni banks to a reasonable degree.
- The value of T-test for the domain of Awareness and Risk Identification is 6.082 value and at the level of significance (000.), which is less than 0.05, means that it is statistically significant in favor of the realistic mean of 44.18. Thus it can be said that the field of Awareness and Risk Identification of risks was available in Yemeni banks to a reasonable degree.

- The value of T-test for the domain of following Banking Regulation shows 7.84 and the level of significance (000.), which is less than 0.05, means that it is statistically significant in favor of the realistic mean of 9.81. Thus, it can be said that the field of following the Banking Regulation was available in Yemeni banks to a reasonable degree.
- The value of T-test for the domain of following the guidelines for the Basel II Guidelines field was .120 at the level of significance (.005), which is less than 0.05, meaning that it is statistically significant in favor of the realistic mean of 2.03. Thus, it can be said that the field of Basel II Guidelines was available in Yemeni banks to an average degree.
- The value of T-test for the domain of Risk Assessment and Analysis shows -146.24 at the level of significance (.000), which is less than 0.05, means that it is a statistically significant function in favor of hypothetical mean of 6. Thus, it can be said that the field of Risk Assessment and Analysis was available in Yemeni banks to an average degree.
- The value of T for the Credit Risk Minimizing reached 7.667 at the level of significance (000.), which is less than 0.05, means that it is statistically significant in favor of the realistic mean of 7.48. Thus, it we can be said that the field of Credit Risk M33inimizing was available in Yemeni banks to a reasonable degree.

5.3.2. Result of T test:

Table 1.3: Result of T test for the different of advance and loans

Sector	Type of bank	Mean	Std. Deviation	T	sig	Result
Commercial and Industrial	Islamic	.6906	.20371	2.996	.004	Yes
	Conventional	.4827	.28813			
Individual	Islamic	1.260	4.75535	1.239	.220	No
	Conventional	.4229	.30707			
Others	Islamic	.0876	.12125	-.214	831	No
	Conventional	.0946	.12461			

T test used to know the difference between the Islamic and conventional banks concerning the pattern of loans and advances according to the commercial and industrial sectors, individuals' sectors and other sectors (Agriculture, services, financial). Table 1.3 shows that:

- The t value is significant (sig < 0.05) for Commercial and Industrial, which means there is a significant difference between the Islamic and conventional banks concerning the pattern of loans and advances according to the commercial and industrial sectors. Therefore, we accept the alternative hypothesis H2a, and it is clear that Islamic banks are offering credit to the commercial and industrial sectors more than conventional banks.
- The t value is not significant (sig >0.05) for Individual, which means there is no significant difference between the Islamic and conventional banks concerning the pattern of loans and advances according to the individual's sector. Therefore, we reject the alternative hypothesis H2b and accept the null Hypothesis, which clear that Islamic and conventional banks offering similar percentage of individuals' credit.
- The t value is not significant (sig >0.05) for other sectors**,** which means there is no significant difference between the Islamic and conventional banks concerning the pattern of loans and advances according to the other sectors. Therefore, we reject the alternative hypothesis H2c and accept the null Hypothesis, which means that Islamic and conventional banks offering similar percentage of credit to the other sectors such as agriculture and services sectors.

5.3.3. Result of Mann-Whitney Test

Table 1.4: Result of Mann-Whitney Test for Credit Policy

	Bank	Mean	N	Mean Rank	Sum of Ranks	Z	Sig.	Result
Credit Policy	Conventional	28.2778	10	14.00	252.00	.45	.569	No
	Islamic	25.8889	4	14.00	126.00			

The inferential statistics Mann-Whitney Test (for two-sample) was used to check the difference in the Credit Policy, Awareness and Risk Identification Level, Regulation (Bank Regulation and BASEL II Guidelines) Assessing and Analyzing Risk and Credit Risk Minimizing in the Yemeni Banks according to the type of the Bank (Conventional – Islamic). Table 1.4 shows that:

- The value of Z shown is 0.45 with a value of significance at .569 greater than 0.05, which means that it is not significant and there is no difference between conventional banks and Islamic banks in Credit Policy. Therefore, we reject the alternative hypothesis (H1) and accept the null hypothesis. The result agrees with the study of *Alaswadi (2014)* that credit policy is important part of the credit risk management practices, but the result differ in respect of the difference of credit policy in Islamic and conventional banks and the researcher argue that the banks working in Yemen lend and formulate the credit policy in concern with the guidelines of the CPY.

Table 1.5: Result of Mann-Whitney Test for CRM

	Bank	Mean	N	Mean Rank	Sum of Ranks	Z	Sig.	Result
Awareness and Risk Identification	Conventional	46.0000	10	8.40	260.00	.413	.680	No
	Islamic	40.5556	4	5.25	118.00			
Banking Regulation	Conventional	10.3889	10	8.40	279.50	1.44	.149	No
	Islamic	8.6667	4	5.25	98.50			
BASEL II Guidelines	Conventional	2.4444	10	15.83	285.00	1.73	.082	No
	Islamic	1.2222	4	10.33	93.00			
Assessing and Analyzing Risk	Conventional	3.5000	10	14.72	265.00	.75	.449	No
	Islamic	2.7778	4	12.56	113.00			
Credit Risk Minimizing	Conventional	8.2222	10	16.72	301.00	2.56	.010	Yes
	Islamic	6.0000	4	8.56	77.00			

From the above table, it is clear that:

- In the second area of Awareness and Risk Identification of risks, the value of Z is .413 with the value of its significance .680 is greater than 0.05, which means that it is not significant and there is no difference between conventional and Islamic banks in Awareness and Risk Identification. Therefore, we reject the alternative hypothesis (H3a) and accept the null hypothesis. The result differs with the study of *Alfwzan et al. (2016)* where they didn't found difference between Islamic and conventional Banks in concern awareness and risk identification, and the researcher argue that as the sample of the study is the Risk Managers of the banks and they have long experience in the field of risk management so there will not be any difference in awareness and risk identification.
- In the third field related to following of the Banking Regulation, the value of Z is shown as 1.44 with value of significance at .149 greater than 0.05, which means that it is not significant and there is no difference between conventional banks and Islamic banks in following the Banking Regulation. Therefore, we reject the alternative hypothesis (H3b) and accept the null hypothesis. The result consistent with the study of *Patel (2015)* where the banks follow the CPY in formulating the policies and practices.
- In the fourth field related to Basel II Guidelines, the value of Z shown as 1.73 with a value of significance at .082 greater than 0.05, which means that it is not significant and there is no difference between conventional and Islamic banks in following Basel II Guidelines. Therefore, we reject the alternative hypothesis (H3b) and accept the null hypothesis.
- In the fifth field of Risk Assessment and Analysis, the value of Z shown is 0.75 with a value of significance at .449 greater than 0.05, which means that it is not significant and there is no difference between conventional and Islamic banks in Risk Assessment and Analysis. Therefore, we reject the alternative hypothesis (H3c) and accept the null hypothesis. The result consistent with the study of *Husain et al. (2014)* where there is no any difference between the credit risk management practices between the Islamic and conventional banks.
- In the sixth field of Credit Risk Minimizing, the value of Z shown is 2.56 at the level of significance at 0.01 that is less than 0.05, which means that it is significant in favor of conventional banks, that means conventional banks have better credit risk minimizing than Islamic banks. Therefore, we accept the alternative hypothesis (H3c), and the result differ from the study of *Alfwzan et al. (2016)* where it refers that Islamic bank are better than conventional

bank, but in the present study it refers that conventional banks better than Islamic banks in credit risk management because Islamic banks faces more credit risk while the Yemeni conventional banks dealing with low types of credit risk.

6. Outline of the Study Area

Yemen: An Arabian country located in the Middle East, Southwest of the Arabian Peninsula in Western Asia. It has an area of about 555,000 square kilometers and has a population of 26,687,000.
Credit risk management: A part of risk management, which has a general framework that includes the diagnosis, measurement, mentoring and reporting of credit risk.
Conventional banks: A non-specialized credit institution that is primarily engaged in receiving a deposit of individuals that are withdrawn any time and at the demand within a short term, mainly dealing with short-term credit.
Islamic banks: Sharia-compliant banking system or activity, as the interest paid by the Banks for deposits on loans, falls under Reba.

7. Chapter Design

Chapter 1: Introduction

This chapter presents an introduction to the present research. It describes the background information of this study, and provides a description of the purpose, research questions, objectives, scope, and significance of the study. It also presents an outline of the methodology employed in the research.

Chapter 2: Review of Literature

The purpose of the second chapter is to undertake literature review on credit risk management. It states the background of the previous studies, which is related to the present study. Furthermore,

it provides an avenue to explore the potential gaps in the existing literature, which serve as the basis of the present study.

Chapter 3: Conceptual Framework

This chapter provides details about the banking, different types of loans and advances granted by Islamic and conventional banks, Non- performing loan, risk management overview, Basel requirements, and highlights the credit risk management process and methods in Islamic and conventional banks.

Chapter 4: Banking Industry in Yemen- An Overview

This chapter provides details about the banking industry in Yemen, different types of Islamic and conventional banks working in Yemen, credit provide by the Yemeni banks, application of Basel requirements by the Yemeni banks and the credit risk management in the Yemeni banks.

Chapter 5: Data Analysis and Interpretation

This chapter examines the credit risk management in Islamic and conventional banks in Yemen through the responses of the questionnaire. This chapter provides accurate methodology, data collection, tools design, coding, statistical tools, tests of the study hypotheses also, and interpretation of the result.

Chapter 6: Summary of Findings, Recommendations, and Conclusion

The final chapter of the study presents the summary of the findings and an overall conclusion from the analysis conducted in the preceding chapters. It also presents the suggestions and several recommendations for future research**.**

8. Conclusion

The study focuses on credit risk management practices in Yemeni Banks. Besides, it also attempts to identify any differences between Islamic and Conventional Banks' credit risk management practices in Yemen. The review of the literature reveals that several studies have been

conducted on credit risk management in the Banking Industry for the Islamic and the Conventional Banks, but there is a lack of research which tries to identify and analyses the difference between the Islamic and Conventional Banks' credit risk management practices in Yemen. The present study attempts to fill that gap in research. Furthermore, the Banking industry in Yemen is considered as the weakest industry in the MENA region, because Banks still faced with systematic and institutional inefficiencies, and the results indicate that the Yemeni Banking sector is emerging, and Conventional and Islamic Banks have a little different view of credit risk management. However, Conventional Banks do not grant credit significantly, while Islamic Banks provide credit more through many credit products. Consequently, the results of the study are essential for policymakers, academics, and bankers.

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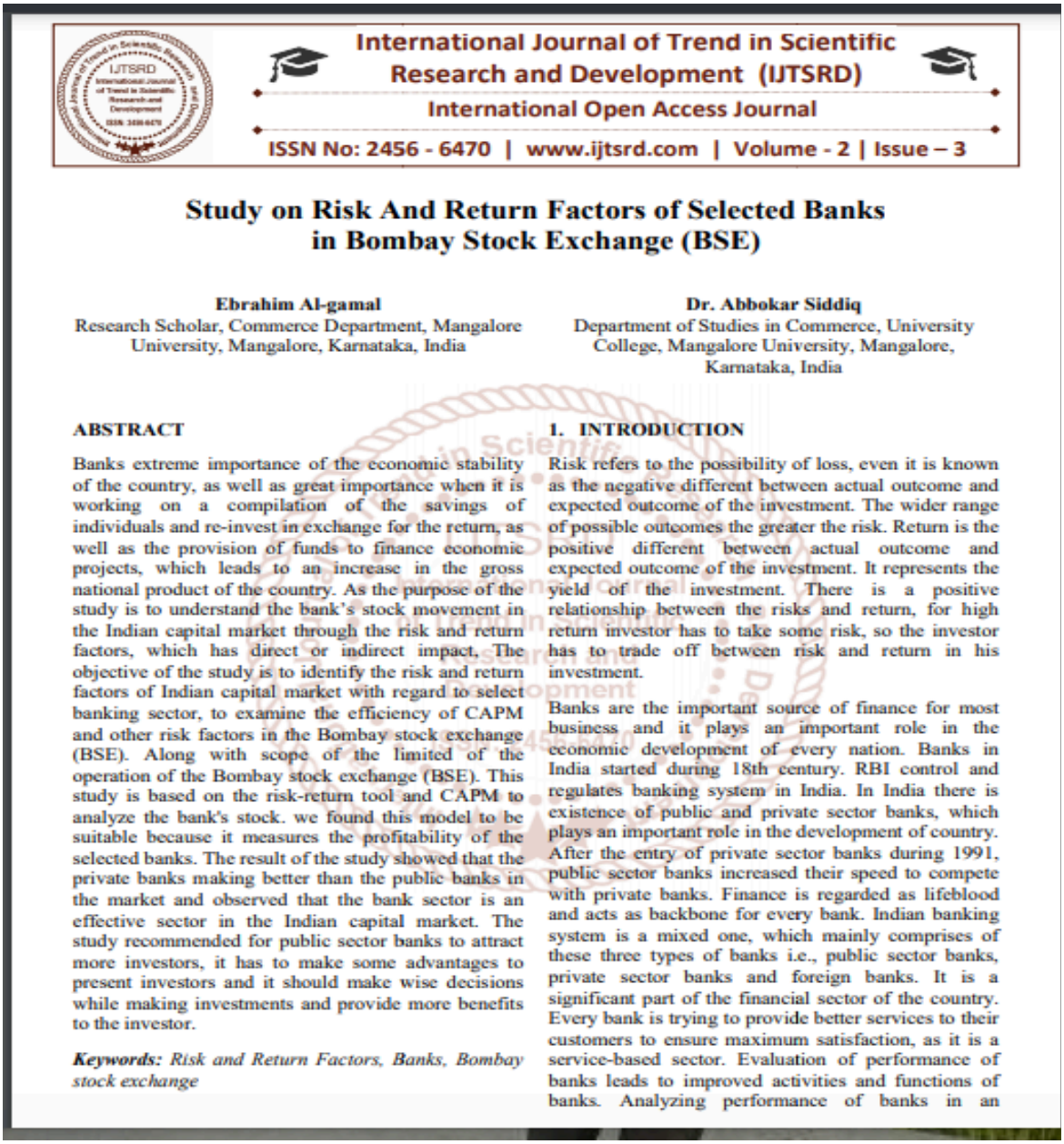

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Study on Risk And Return Factors of Selected Banks in Bombay Stock Exchange (BSE)

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ABSTRACT

Banks extreme importance of the economic stability of the country, as well as great importance when it is working on a compilation of the savings of individuals and re-invest in exchange for the return, as well as the provision of funds to finance economic projects, which leads to an increase in the gross national product of the country. As the purpose of the study is to understand the bank's stock movement in the Indian capital market through the risk and return factors, which has direct or indirect impact. The objective of the study is to identify the risk and return factors of Indian capital market with regard to select banking sector, to examine the efficiency of CAPM and other risk factors in the Bombay stock exchange (BSE). Along with scope of the limited of the operation of the Bombay stock exchange (BSE). This study is based on the risk-return tool and CAPM to analyze the bank's stock. we found this model to be suitable because it measures the profitability of the selected banks. The result of the study showed that the private banks making better than the public banks in the market and observed that the bank sector is an effective sector in the Indian capital market. The study recommended for public sector banks to attract more investors, it has to make some advantages to present investors and it should make wise decisions while making investments and provide more benefits to the investor.

Keywords: *Risk and Return Factors, Banks, Bombay stock exchange*

1. INTRODUCTION

Risk refers to the possibility of loss, even it is known as the negative different between actual outcome and expected outcome of the investment. The wider range of possible outcomes the greater the risk. Return is the positive different between actual outcome and expected outcome of the investment. It represents the yield of the investment. There is a positive relationship between the risks and return, for high return investor has to take some risk, so the investor has to trade off between risk and return in his investment.

Banks are the important source of finance for most business and it plays an important role in the economic development of every nation. Banks in India started during 18th century. RBI control and regulates banking system in India. In India there is existence of public and private sector banks, which plays an important role in the development of country. After the entry of private sector banks during 1991, public sector banks increased their speed to compete with private banks. Finance is regarded as lifeblood and acts as backbone for every bank. Indian banking system is a mixed one, which mainly comprises of these three types of banks i.e., public sector banks, private sector banks and foreign banks. It is a significant part of the financial sector of the country. Every bank is trying to provide better services to their customers to ensure maximum satisfaction, as it is a service-based sector. Evaluation of performance of banks leads to improved activities and functions of banks. Analyzing performance of banks in an

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Significance of Credit Risk Management in Banking Industry in Yemen: A Study

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Abstract
Banks face many risks that must deal with sensitively in accordance with the instructions of decision makers in the banking sector. In the forefront of these risks is credit risk that considers as one of the banks' main activates, which in case of ignoring would lead to many problems to the bank or rather to bankruptcy. This study aims to highlights on credit risk management review, to find out the importance of credit risk management, to examine credit risk management techniques. The study recommended that banks have to focus on credit risk management and improve the techniques of mitigating credit risk.

Keywords: credit risk management, yemen, and the banking industry

1. Introduction
With the rapid progress of science and technology by globalization, the world has become a small village where financial and non- financial transactions are completed faster, so Banks working as a link to completed these financial transactions.
Banks extreme importance of the economic stability of the country, as well as great importance when it is working on a compilation of the savings of individuals and re-invest in exchange for the return, as well as the provision of funds to finance economic projects, which leads to an increase in the gross national product of the country (Al-Gamal & Siddiq, 2017) [3]. In the additional that considered being a standard of a peace economy, which must develop its systems and practices to ensure that it maintains sound performance and low-risk level.
Banks face many risks that they must deal with sensitively in accordance with the instructions of decision makers in the banking sector. In the forefront of these risks is credit risk that considers as one of the banks main activates, which in case of ignoring would lead to many problems to the bank or rather to bankruptcy.
Some studies, such as (Gil Diaz, 1994) argue that the major cause of serious banking problems continues to be directly related to lack of credit standards for borrowers and counterparties, poor portfolio risk management, or lack of attention to changes in economic or other circumstances that can lead to a deterioration in the credit standing of a bank's counterparties.
Banking industry in Yemen is considered as the weakest industry in the MENA region and middle east, also facing serious banking problems, the bankruptcy of the national bank in 2005 - because of lending without taking central banks of Yemen guidelines - a significant impact on the banking sector and the transactions of national banks with their foreign counterparts.

2. Objectives
The study is shown with the following objectives
- To highlights the credit risk management review.
- To find out the importance of credit risk management in Yemen.
- To examine credit risk management techniques in Yemen.

3. Review of literature
Prakash, (2016) [7] stated the Significance of Risk Management in Banking Sector, Where aimed to understand the different types of risk faced by the Banks, to examine the process of Risk Management, to find out the importance of Risk Management, to analyze the contingency plans to deal with risk. The study is conceptual in nature. It concluded that the success of the organization would be depending upon how efficiently the enterprise takes care of the entire risk management system. It ensures that the risks are consciously taken with full knowledge, clear purpose, and understanding - so that it can be measured and mitigated.
Safari *et al,*. (2016) studied the significance of risk management for banks and other financial institutions, with mine objectives to examine the importance of risk management in the financial institutions. The study concludes that risk management is a higher priority these days for almost all industry fields. Not many industries have experienced the effect of risk management more profoundly than the financial services industry.
Singh (2015) [2] stated the Credit Risk Management In Indian Commercial Banks, it gives an overview about the credit risk management in commercial banks in India, for arguing his aides he points out some studies which speak about the credit risk management in the banks. Study finds that Credit Risk Management Policy of the bank dictates the Credit Risk Strategy and he finds that the ever-improving risk management practices in the Bank will result in Bank emerging stronger.
Abdou *et al,*. (2015) Surveyed on Risk Management Practices in the Republic of Yemen: Are Islamic banks different? with the purpose of investigating the extent to which Yemen's bank is applying risk management practices as well as to compare and distinguish between the risk management practices used in Islamic, national, and foreign banks for all the banks working in Yemen. The result of the

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Impact of Credit Risk and Capital Risk on Islamic and Conventional Banking Hedging

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Abstract

This study aims to examine the relationship between credit risk and capital adequacy with Banking hedging of Islamic and Conventional Banks in Yemen. A sample of 4 Conventional Banks and 3 Islamic Banks used during the period of (2012-2017). Using Pearson Correlation and Regression Analysis, we conclude that there is a statistically significant relationship between credit risk and Banking hedging, and a strong statistically significant relationship between capital adequacy and Banking hedging of Yemeni Banks. Based on the type of bank, results indicateto a negative relationship but not statistical significance between the credit risk and Banking hedging of Conventional Banks, and there is a statistically significant relationship between credit risk and Banking hedging of Islamic Banks. Capital adequacy positively interacts with the Banking hedging in both Banks.

Keywords: Credit risk, Capital adequacy, Baking hedging, Yemen.

1. Introduction.

Yemen, among Middle East countries, considered as the weakest country in terms of growth and development, as well as the Yemeni Banking sector is the lowest system compared to Middle Eastern countries, because of the successive crises that have passed and affected Yemen. However, dominant over the financial system, so that any failure in the Banking sector will impact on the entire economic sector of a country **(Al mekhlafi et al., 2016).** The Yemeni Banking sector has faced many crises, the most important of which was the bankruptcy of the National Bank in 2004 due to poor management and the inability to recover depositors 'money. Many challenges hindered the improvement of the Yemeni Banking sector, such as the large size of non-performing loans and the weak implementation of regulatory standards. However,

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Consumer Perception Towards Online Advertisement - A Study With Reference To Foreign Students In Mysore

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Abstract: ***Online advertising is aimed to suggest products and services to the population of Internet users. This study seeks to understand the perceptions towards advertising in the online social networking. Websites, even to know how the foreigner students in Mysore think about online advertising. It is exploratory in nature and its primary goal is to gain better understanding on the subject. The reason this topic has chosen is to allow for a better understanding of the foreign students in Mysore and their attitude towards online advertising. Thus, the market players can have some ideas about their advertisements via Internet. Furthermore, as there is lack of research study of this topic in the Indian context, in order to enhance the knowledge in this field, this research is carried out in India. A total of 25 sets of questionnaires were distributed to the potential Internet user respondents and 22 sets of questionnaires were collected. Thereby, the response rate of this research was 92 percent. The data has been analyzed by using SPSS application. It is observed that most of respondents originally from Yemen, Tanzania, and Jordan, most of them holding PG and UG certificate, their age ranges between 20-25, and most of them are male. Researchers found that most of the respons don't have given perception about the online advertising with a high quality. By understanding all the factors that influence consumer's attitude towards online advertising, marketer can better create an effective advertisement to influence consumers' informational responses.***

Keywords: Online advertisement, consumer's attitude, foreigner students.

I. INTRODUCTION

The World Wide Web (WWW) has grown so fast in the last ten years and it has become an essential part of people. Nowadays, Web advertising is one of the major sources of income for a large number of websites. Online advertisement aims to offer products and services to the users of Internet. The importance of the online advertising is reflected, as it reaches to a huge number of the consumers. This study contributes to providing information about the consumer preference towards the advertising media and whether using Internet advertising would be effective in reaching and increasing awareness of the target audience. The study aims to understand perceptions towards advertising in the online social networking Websites, and to know how the students think about online advertising. The primary goal of this paper is to gain better understanding of online advertisement. Scope of the study limited to the foreign students in Mysore, India.

II. REVIEW OF LITERATURE

Chen and Wells, 1999- the evaluation of the traditional media of advertising, which also found to be relevant when assessing the attitude of consumer towards online advertising. The consumer may have favorable perception in which they may perceive that online advertising enables an individual to get more information easily by merely clicking on an advertisement, the ability to react immediately towards an advert, believability of the advertising, interesting advertisement and ability to choose and decide what and when to watch (Abd Aziz et al., 2008). Schlosser et al., 1999 - surveyed a national sample of over 400 participants and found no majority opinion of Internet advertising-about a third of the

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Original Article

THE CONSTRUCTION OF OPTIMUM PORTFOLIO USING SHARPE'S INDEX MODEL—A STUDY WITH REFERENCE TO SELECTED COMPANIES OF BSE SENSEX

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ABSTRACT

Individual invest their money both emotionally and as well as rationally. An investor considered investment in portfolios is facing a problem of choosing a good security among a various securities in a secure market. Some rare investors are investing their amount in a single security. But most of the investors invest their funds in the group of securities instead of investing in a single security. It helps to reduce the risk of investors. The main objectives of any investors in stock market are to maximize the return with minimum risk. This study is taken up for the construction of optimum portfolio using Sharpe's index model for 10 selected companies from 5 different sectors for 2 year period from January 2015 to December 2016, and out of these selected companies only 2 companies (Biocon & Markasn) were selected for the construction of optimum portfolio.

KEYWORDS: Stock Market, Optimum Portfolio & BSE Sensex

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1. INTRODUCTION

Investment refers to the employment of funds on assets with the aim of increasing the income and capital. An investor invests his amount in a securities for the purpose of expecting to get a maximum returns along with minimum risk. Investors are faced with a problem of choosing a better security from among large number of securities so they are selecting the portfolio depending upon their objectives.

The investors required a lot of scientific and analytical skill in order to invest their funds in securities in the capital market and constructions of optimum portfolio. There are two methods for constructions of optimum portfolio, which are the Traditional method - which based on the capital appreciation, liquidity, safety, earning of incomes etc- and Modern method- which based of the combinations of Markowitz model, Sharpe index model, and CAPM model.

William Sharp developed the Sharp model in 1966, and it is used to measure and compare the level of risk on the portfolio, which indicate that the higher the Sharpe ratio, the better the performance of the portfolio. Sharp models show two things: first, if the investor's strategy makes a bigger profit compared to a risk-free rate; and second, it links the investor's profits to the amount of risk they are exposed to.

Bombay stock exchange (BSE) was established in the year 1875 it is the first stock exchange in Asia. It trades the equity, debt instructions, derivatives, and mutual funds. It trades efficiently and

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Analysis of Investment Pattern of Different Class of People: A Review

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Abstract

In India, investors have a lot of investment avenues to invest their savings. The risk and returns involved in each of these investment avenues differ from one to another. The investors are ready to invest after evaluating the main features of investments such as security of principal amount, liquidity, income stability, easy transferability, etc. Shares, bank, gold and silver, life insurance, postal savings, etc. are the available investment avenues. This paper tries to review the investment pattern of different class of people based on previous research. This paper focus on investment pattern of working women, salaried employees and teachers. Data were collected various journals, websites and research articles.

Keywords: Investment pattern; Working women; Salaried employees; Teachers.

Introduction

Investment is employment of funds with the aim of the achieving additional income growth in value. The essential qualities of and investment are that it involves waiting for a reward. It involves the commitment of resources, which have been saved or put away from current consumption in the hope that some benefits will accrue in future. Investment is the allocation of monetary resources to assets that are expected to yield some gain or positive return over a given period of time. Investment is the sacrifice of certain present values for the uncertain future reward. Investment entails arriving at numerous decisions relating to type, mix, amount, timing and grading of investment. An investment decision is a trade off between risk and return. All investment choices are made in accordance with the personal investment ends and in contemplation of an uncertain future. Investments are both important and useful in the context of present day condition.

Different class of People

This paper explains investment pattern of different class of people. These classes of people are identified based on previous research. Here researcher selected different class of people on whom research conducted in previous research. They may differ from their gender, domicile, professions or other factors. This paper reviews the investment pattern of working women, households, rural people, salaried employees, Teachers and other class of people.

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